

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hiawathaland Library Cooperative	County Chippewa
Fiscal Year End 09/30/06	Opinion Date 11/15/06	Date Audit Report Submitted to State 02/05/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

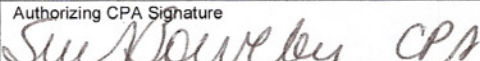
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
Authorizing CPA Signature 		Printed Name Sue A. Bowlby	Zip 49788
		License Number 1101020765	

HIAWATHALAND LIBRARY COOPERATIVE

BASIC FINANCIAL STATEMENTS

September 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1 – 2
MANAGEMENT’S DISCUSSION & ANALYSIS	3 – 6
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet – Governmental Fund	9
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Fiduciary Funds:	
Statement of Fiduciary Net Assets	13
NOTES TO FINANCIAL STATEMENTS	14 – 23
REQUIRED SUPPLEMENTARY INFORMATION:	
MAJOR FUND:	
Budgetary Comparison Schedule – General Fund	24



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hiawathaland Library Cooperative
Sault Ste. Marie, Michigan 49783

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Hiawathaland Library Cooperative, as of and for the year ended September 30, 2006, which collectively comprise the Hiawathaland Library Cooperative's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hiawathaland Library Cooperative, as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on page 3 and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in blue ink that reads "Anderson, Tackman & Co., PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 15, 2006

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

The Library as a Whole

The Library's combined net assets decreased 6% from a year ago decreasing by \$7,803. In a condensed format, the table below shows a comparison of the net assets as of the current date.

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2006</u>
Current Assets	\$ 139,546	\$ 133,926
Capital Assets	<u>7,606</u>	<u>2,090</u>
Total Assets	<u>\$ 147,152</u>	<u>\$ 136,016</u>
Current Liabilities	\$ 15,152	\$ 13,090
Long-Term Liabilities	<u>1,271</u>	<u>-</u>
Total Liabilities	<u>\$ 16,423</u>	<u>\$ 13,090</u>
Net Assets		
Invested in Capital Assets	\$ 7,606	\$ 2,090
Unrestricted (Deficit)	<u>123,123</u>	<u>120,836</u>
Total Net Assets	<u>\$ 130,729</u>	<u>\$ 122,926</u>

The current level of unrestricted net assets for our governmental activities stands at \$120,836, or about 119% of expenses. This is within the targeted range set by the Library Board of Directors during its last budget process.

The following table shows the activities of the Library.

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2006</u>
General Revenues		
State Sources	94,881	89,954
Investment Income	1,537	2,777
Other Revenue	<u>283</u>	<u>601</u>
Total Revenues	<u>96,701</u>	<u>93,332</u>
Program Expenses		
Recreation and Culture	<u>104,384</u>	<u>101,135</u>
Total Expenses	<u>104,384</u>	<u>101,135</u>
Changes in Net Assets	(7,683)	(7,803)
Net Assets – Beginning	<u>138,412</u>	<u>130,729</u>
Net Assets – Ending	<u>\$ 130,729</u>	<u>\$ 122,926</u>

The Library's Funds

Our analysis of the Library's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Library as a whole. The Library Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's major fund for 2006 includes the General Fund.

Capital Asset and Debt Administration

At the end of 2006, the Library had \$2,090 invested in a broad range of capital assets, including equipment. In addition, the Library has invested significantly in computers within the Library. Capital acquisitions in the current year were \$0.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget Vs. Actual 5-Year History**

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2001 – 2002	-	101,459	100,013	-	1,446
2002 – 2003	-	99,699	93,256	-	(6,443)
2003 – 2004	105,485	118,697	127,826	22,341	9,129
2004 – 2005	105,485	100,005	96,702	(8,783)	(3,303)
2005 – 2006	92,083	93,003	93,332	(1,249)	329

General Fund Expenditures Budget Vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2001 – 2002	-	108,955	100,528	-	8,427
2002 – 2003	-	126,418	81,525	-	44,893
2003 – 2004	133,722	147,425	109,332	24,390	38,093
2004 – 2005	133,722	116,633	98,284	35,438	18,349
2005 – 2006	101,778	100,837	96,890	4,888	3,947

Original vs. Final Budget:

As a matter of practice, Hiawathaland Library Cooperative amends its budget during the year. For the fiscal year 2005-2006, the budget was amended throughout the year.

Change from Original to Final Budget:**General Fund Revenues:**

Total Revenues Original Budget	\$ 92,083
Total Revenues Final Budget	<u>93,003</u>
Increase in Budgeted Revenues	<u>\$ 920</u>

The Cooperative's final budgeted general fund revenues differed from the original budget by \$920, a variance of .99%.

General Fund Expenditures:

The Cooperative's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 101,778
Total Expenditures Final Budget	<u>100,837</u>
Increase in Budgeted Expenditures	<u>\$ 941</u>

As indicated above, the Cooperative's budgeted expenditures were more than the original budget by .92%.

Economic Factors and Next Year's Budget

The Preliminary Budget for the 2006-07 Fiscal Year required certain estimates and assumptions be made as the budget was being drafted. These estimates and assumptions were based on current information available to the board and management.

Since the Cooperative's revenue is heavily dependent on State funding, the actual revenue received depends on the State's ability to collect revenues to fund its appropriations.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Hiawathaland Library Cooperative, 541 Library Drive, Sault Ste. Marie, MI 49783, (906) 632-4342.

Basic Financial Statements

Hiawathaland Library Cooperative

Statement of Net Assets September 30, 2006

	Governmental Activities
ASSETS:	
Current Assets	
Cash & Equivalents - Unrestricted	\$ 117,386
Accounts Receivable	7,908
Prepaid Expenses	8,632
Total Current Assets	133,926
Noncurrent Assets	
Capital Assets, (net of Accumulated Depreciation)	2,090
TOTAL ASSETS	\$ 136,016
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 1,485
Accrued Expenses	11,605
TOTAL LIABILITIES	13,090
NET ASSETS:	
Invested in Capital Assets	2,090
Unrestricted	120,836
TOTAL NET ASSETS	\$ 122,926

Hiawathaland Library Cooperative

Statement of Activities For the Year Ended September 30, 2006

Functions/Programs	Program Expenses	Program Revenues Operating Grants	Governmental Activities Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:			
Recreation & Culture	\$ 101,135	\$ 89,954	\$ (11,181)
 Total Governmental Activities	 \$ 101,135	 \$ 89,954	 (11,181)
 General Revenues:			
Investment Earnings (Loss)			2,777
Miscellaneous			601
 Total General Revenues			 3,378
 Changes in Net Assets			 (7,803)
Net Assets - Beginning			130,729
Net Assets - Ending			\$ 122,926

Hiawathaland Library Cooperative

Balance Sheet Governmental Funds September 30, 2006

	General Fund
ASSETS:	
Cash & Equivalents - Unrestricted	\$ 117,386
Accounts Receivable	7,908
Prepaid Expenses	8,632
TOTAL ASSETS	<u>\$ 133,926</u>
LIABILITIES:	
Accounts Payable	\$ 1,485
Accrued Expenses	11,605
TOTAL LIABILITIES	<u>13,090</u>
FUND BALANCES:	
Unreserved and Undesignated	<u>120,836</u>
TOTAL FUND BALANCES	<u>120,836</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 133,926</u>

Hiawathaland Library Cooperative

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets September 30, 2006

Total fund balances – governmental funds	\$ 120,836
--	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Property and equipment	\$ 109,181
Accumulated depreciation	<u>(107,091)</u>
Total capital assets	<u>2,090</u>

Net assets of governmental activities	<u>\$ 122,926</u>
---------------------------------------	-------------------

Hiawathaland Library Cooperative

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended September 30, 2006

	General Fund
REVENUES:	
State Sources	\$ 89,954
Interest	2,777
Other	601
	<hr/>
TOTAL REVENUES	93,332
	<hr/>
EXPENDITURES:	
Recreation & Culture	96,890
	<hr/>
TOTAL EXPENDITURES	96,890
	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,558)
FUND BALANCES, OCTOBER 1	124,394
	<hr/>
FUND BALANCES, SEPTEMBER 30	\$ 120,836
	<hr/> <hr/>

Hiawathaland Library Cooperative

Reconciliation of the Statement of Revenues, Expenditures, and Changes of Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2006

Net Changes in fund balances - total governmental funds \$ (3,558)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$ 5,516) exceeded capital outlays \$ 0. (5,516)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences 1,271

Changes in net assets of governmental activities \$ (7,803)

**Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006**

	<u>Agency Fund</u> <u>Lilja Trust</u> <u>Fund</u>
ASSETS:	
Cash & Investments - Restricted	<u>\$ 8,363</u>
 TOTAL ASSETS	 <u><u>\$ 8,363</u></u>
 NET ASSETS:	
Held in Trust for Endowments	<u>\$ 8,363</u>
 TOTAL NET ASSETS	 <u><u>\$ 8,363</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Library:

A – Reporting Entity

Hiawathaland Library Cooperative is a governmental unit created under Public Act 89 of 1977 of the State of Michigan. Library cooperatives were designed to provide services to member libraries, such as materials or grants for materials, inter-library loan services, continuing education programs, help in upgrading services and technology, and consultation. Hiawathaland Library Cooperative has eight member libraries and is governed by a Board of Trustees, appointed by local governing authorities. The nine member Board of Trustees represents the member libraries and various communities of the Cooperative. Hiawathaland's member libraries include: Bayliss Public Library, DeTour School-Public Library, Rudyard School-Public Library, St. Ignace Public Library, Tahquamenon School-Public Library, Whitefish Township Public Library, Manistique School-Public Library and Mackinac Island Public Library.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. All other revenue items are considered to be available only when cash is received by the government.

The Library reports the following major governmental fund:

General Fund – This is the Library’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.”

All trade and grant receivables are shown as net of allowance for uncollectible amounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Expenditures for insurance and similar services are expensed when paid.

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., equipment and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each September, after receiving input from the individual departments, the Board of Trustees prepares a proposed operating budget for the fiscal period commencing October 1 and lapses on September 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally enacted through a resolution passed by the Board.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Directors. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Library does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the Library's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents:		
- Unrestricted	\$ 117,386	\$ -
- Restricted	<u>-</u>	<u>8,363</u>
Total	<u>\$ 117,386</u>	<u>\$ 8,363</u>

The breakdown for deposits are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 117,386	\$ 8,363
Total	<u>\$ 117,386</u>	<u>\$ 8,363</u>

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The Library has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Library's bank balance of \$125,747 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Library to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets being depreciated:				
Furniture, fixtures and equipment	\$ 109,181	\$ -	\$ -	\$ 109,181
Subtotal	109,181	-	-	109,181

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	<u>(101,575)</u>	<u>(5,516)</u>	<u>-</u>	<u>(107,091)</u>
Subtotal	<u>(101,575)</u>	<u>(5,516)</u>	<u>-</u>	<u>(107,091)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,606</u>	<u>\$ (5,516)</u>	<u>\$ -</u>	<u>\$ 2,090</u>
Depreciation Expense for Governmental Activities:				
Recreation and Culture			<u>\$ 5,516</u>	

NOTE 5 - CONTINGENT LIABILITIES

The Hiawathaland Library Cooperative receives significant financial assistance from state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Hiawathaland Library Cooperative.

NOTE 6 - ECONOMIC DEPENDENCY

Hiawathaland Library Cooperative receives the majority of their funding in the form of Direct State Aid from the State of Michigan. Funding is also received from member libraries in the form of Indirect State Aid. A decrease in or elimination of these funds would adversely affect the operation of the Cooperative.

NOTE 7 - RELATED PARTIES

The Hiawathaland Library Cooperative contracts with the Bayliss Public Library for staffing services. These are contracted services and the employees are all Bayliss Public Library employees subject to their personnel policies.

Required Supplementary Information

Hiawathaland Library Cooperative

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 90,483	\$ 89,956	\$ 89,954	\$ (2)
Interest	1,000	2,447	2,777	330
Other	600	600	601	1
TOTAL REVENUES	92,083	93,003	93,332	329
EXPENDITURES:				
Recreation and Culture:				
Contracted Services	46,078	46,078	44,880	1,198
Office Supplies	700	500	493	7
Processing	50	-	-	-
Postage	2,500	1,500	1,523	(23)
Books	14,000	13,525	13,520	5
Audio Visual	6,500	7,400	7,380	20
Magazines	4,000	4,000	4,008	(8)
Contractual Services	8,200	8,650	8,737	(87)
Audit	3,000	2,150	2,150	-
Telephone	1,000	-	-	-
Board Meetings / Travel	2,000	2,100	1,327	773
Staff Travel	2,500	6,100	5,186	914
Printing	250	-	-	-
Publicity/Programs	500	25	25	-
Equipment Repairs	700	200	160	40
Photocopy Expenses	500	(25)	2	(27)
Rent	2,000	2,000	2,000	-
Furniture and Equipment - Capital Outlay	800	-	-	-
Professional Development	1,000	305	270	35
Member Library Development	5,000	5,845	4,598	1,247
Other Expenditures	500	484	631	(147)
Total Recreation and Culture	101,778	100,837	96,890	3,947
TOTAL EXPENDITURES	101,778	100,837	96,890	3,947
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (9,695)	\$ (7,834)	(3,558)	\$ 4,276
FUND BALANCE, OCTOBER 1			124,394	
FUND BALANCE, SEPTEMBER 30			\$ 120,836	



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Board of Trustees
Hiawathaland Library Cooperative
Sault Ste. Marie, MI 49783

We have audited the financial statements of the Hiawathaland Library Cooperative as of and for the year ended September 30, 2006, and have issued our reports thereon dated November 15, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Hiawathaland Library Cooperative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Hiawathaland Library Cooperative are described in Note 1 to the financial statements. We noted no transactions entered into by the Hiawathaland Library Cooperative during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimated amount.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Hiawathaland Library Cooperative's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Hiawathaland Library Cooperative, either individually or in the aggregate, indicate matters that could have a significant effect on the Hiawathaland Library Cooperative's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hiawathaland Library Cooperative's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hiawathaland Library Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Accruals (Repeat)

Currently, the Hiawathaland Library Cooperative records financial statements information using the cash basis of accounting, while U.S. generally accepted accounting principles requires that the modified accrual basis of accounting be used. Hiawathaland Library Cooperative should use the modified basis of accounting for the financial statements.

Status: The Cooperative is using the cash basis of accounting throughout the year.

Accounts Payables (Repeat)

Accounts payable per the general ledger should be reconciled monthly to the bills that are outstanding at month end. Proper payable accruals should be posted to the organization's general ledger to reflect accrual accounting.

Status: The Cooperative does not accrue payables.

Prepays (Repeat)

Prepays should be reviewed and adjusted monthly.

Status: The Cooperative does not adjust prepaid amounts.

Conflict of Interest Policy (Repeat)

Upon a review of the organization's policies, we noted that there is no Conflict of Interest Policy in effect. To provide guidance when related party transactions occur, a Conflict of Interest Policy should be adopted which would set parameters and steps to be taken once a conflict occurs.

Status: The Cooperative does not have a Conflict of Interest Policy.

Capital Assets (Repeat)

We noted that although the organization maintains a listing of its capital assets which includes the cost, description as well as the tag number for each asset, however, there is no capitalization dollar threshold for the organization. We recommend that the board implement a dollar threshold for its capitalization policy which would assist in coding the item as an expense or capitalizing and depreciating and tagging that asset.

Status: The Cooperative does not have a dollar threshold in its Capitalization Policy.

Conclusion

This information is intended solely for the use of the Board of Trustees and management and is not intended to be and should not be used for anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 15, 2006